SHAPING THE FUTURE OF OIL EXPLORATION AND PRODUCTION IN AFRICA

Half Year Report 2019

LEKOIL is an Africa focused oil and gas exploration and production company with interests in Nigeria. We are headquartered in Lagos with additional offices in Princeton, USA and London. We employ 92 people.

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Highlights

Financial

- Operating profit of US$0.5 million (2018: US$3.0 million);
- Net loss of US$5.2 million (2018: net profit of US$1.8 million);
- Borrowings at period end of US$15.8 million (US$20.5 million at 31 December 2018);
- Period end cash of US$7.0 million (US$10.4 million at 31 December 2018);
- Cash of US$8.3 million, and borrowings of US$13.9 million, as at 31 August 2019.

Production – Otakikpo*

- Otakikpo production averaged 5,822 bopd gross with 2,329 bopd net to LEKOIL (2018: 2,042 bopd net) and downtime of zero days;
- Updated Otakikpo CPR released 26 June 2019 – gross 2P reserves of 48.6 MMbbl (19.4 MMbbl net to LEKOIL), an uplift of more than 200 per cent compared to 2015's CPR figure of 15.0 MMbbl. 2P NPV10 of US$226 million, after income taxes, net to LEKOIL;
- Planning completed for the Phase Two development at Otakikpo to increase production towards 15-20,000 bopd (6-8,000 bopd net to LEKOIL), subject to securing the necessary funding;
- MOU signed in July between the Otakikpo Joint Venture partners, Schlumberger and a Nigerian subsidiary of a major international oil company ("IOC") which has been operating in Nigeria for more than 50 years to cover a project to provide comprehensive infrastructure sharing and a drilling programme around a group of marginal field assets, including Otakikpo, in OML 11;
- phased development plan includes up to five new wells in Otakikpo and expanding processing infrastructure to comprise a new onshore terminal, to be located outside the Otakikpo field operations area, and the construction of an export pipeline from the onshore terminal to an offshore buoy;
- the infrastructure will handle Otakikpo production and other fields in OML 11;
- project capex estimated at US$170 million, of which LEKOIL is expected to contribute US$68 million – to be provided to the Otakikpo Joint Venture by the IOC subsidiary and repaid from production revenues;
- investment by the IOC subsidiary, which will provide funding to the Otakikpo Joint Venture alongside the other funding partners, is subject to due diligence, project economics, entry into definitive documentation and final investment decision.

Appraisal – OPL 310*

- OPL 310 legal action withdrawn following judgement against LEKOIL in the Federal High Court to enable the Ministry of Petroleum Resources to consider re-award of the block;
- Post period end, on 30 August, the Company announced a legally binding agreement with operator Optimum to progress appraisal and development programme activities at Ogo and to seek a funding partner using LEKOIL's disputed 22.86 per cent interest in OPL 310 as a potential funding and security vehicle;
- In September, LEKOIL announced the Ministry of Petroleum Resources had approved the extension of the licence for three years, subject to the holders of the licence paying an extension fee of US$7.5 million by the end of October 2019 which will be funded 100 per cent by LEKOIL.

Exploration – OPL 325*

- Awaiting the execution of the Production Sharing Contract for OPL 325 and readying one of the prospects for drilling – farm-down process to commence once these activities are complete.

Appraisal – OPL 276*

- Acquisition announced in August of a 45 per cent participating interest in the Production Sharing Contract in relation to OPL 276, covering a territory located onshore in the eastern Niger Delta basin;
- total staged consideration of US$5.0 million, subject to certain milestones;
- four wells have been drilled in the licence area, resulting in four discoveries (two oil and two gas) with preliminary resource estimates, based on data from the four wells, of gross recoverable volumes of 29 million barrels of oil and 333 Bcf of gas, with upside of 33 million barrels of oil and 476 Bcf of gas (recoverable).

* Held through LEKOIL Nigeria

Chairman's and CEO's statement

The first half of 2019 was a busy period for LEKOIL. Despite challenging market conditions and operational headwinds, we have put in place plans for value creation in each of our producing, appraisal and exploration assets in the Dahomey Basin and the Niger Delta.

Introduction
LEKOIL was formed as an indigenous Nigerian upstream company, set to exploit overlooked opportunities in new and existing basins in Africa and through this create a balanced portfolio of oil and gas exploration and production assets. We have sought to achieve this through leveraging a very strong technical team and our industry and investment market relationships and experience.

Over six years on from our IPO, we have a producing asset in Otakikpo in the eastern Niger Delta with near term upside, and two assets in the Dahomey Basin – an appraisal asset in Ogo in OPL 310; OPL 276, a potential near-term producing asset with significant resource potential; and additional exploration optionality provided by our majority interest in OPL 325. For Otakikpo and OPL 310, we have Memorandum of Understanding ("MOU") agreements in place with respect to developing the assets with partners Schlumberger, as well as a major IOC.

Production – Otakikpo
We have now completed planning for the Phase Two development at Otakikpo, which would see us, subject to securing the necessary funding, increase production towards 15-20,000 bopd (6-8,000 bopd net to LEKOIL). As part of the Otakikpo development process, we commissioned, and announced in June, an updated Competent Person's Report ("CPR") detailing recoverable volumes within the Otakikpo Marginal Field in OML 11. The CPR, prepared by McDaniel Associates & Consultants Ltd, focused on the discovered conventional oil accumulations only, with the field's significant gas resources expected to be reflected in a future update.

The CPR disclosed gross 2P reserves of 48.6 MMbbl (19.4 MMbbl net to LEKOIL), an uplift of more than 200 per cent compared to 2015's CPR figure of 15.0 MMbbl. Gross aggregate stock tank oil in place (STOIIP) prospective volumes on a P50, unrisked basis, mean estimate was 331.6 MMbbl (132.6 MMbbl net to LEKOIL), compared to 2015's CPR figure of 163.0 MMbbl (65.2 MMbbl net to LEKOIL). The updated recoverable volumes produced a 2P NPV10 of US$226 million, after income taxes, net to LEKOIL.

We were delighted that the consultant's report confirmed our view of the attractiveness and future potential of the Otakikpo project. The updated CPR increased estimates for unrisked oil resources and reinforced the already strong economics of the development.

We announced in early July a MOU between the Otakikpo Joint Venture partners, Green Energy International Limited as Operator and LEKOIL as Technical Partner, and Schlumberger and a subsidiary of a major international oil company ("IOC") which has been operating in Nigeria for more than 50 years. The MOU covers a project to provide comprehensive infrastructure sharing and a drilling programme around a group of marginal field assets, including Otakikpo. Standard Chartered Bank is to act as lead financial advisor for the project and supply the necessary financial advisory, security and banking services.

The phased development plan of the project consists of drilling up to five new wells in Otakikpo and expanding processing infrastructure to comprise a new onshore terminal, to be located outside the Otakikpo field operations area, and the construction of an export pipeline from the onshore terminal to an offshore buoy. This infrastructure will handle production from Otakikpo and other fields.

Capital expenditure to be incurred by the Otakikpo Joint Venture is expected to be approximately US$170 million covering new wells and processing infrastructure, of which LEKOIL is expected to fund US$68 million. The Nigerian subsidiary of the IOC will provide funding to the Otakikpo Joint Venture alongside the other funding partners, subject to due diligence, project economics, entry into definitive documentation and final investment decision. Repayment will be made from production revenues from Otakikpo, in priority to any existing lending facilities

"The recent settlement with Optimum, receipt of the OPL 310 licence extension from the Nigerian Government, and encouraging progress made in preparing to commence work on all our other interests, leads us closer to delivering on our commitment to monetise the significant value that we believe exists in both our existing and recently acquired opportunities. We thank our shareholders for their continued patience and remain optimistic that the outlook is set to improve. We are excited about what we see is in prospect for all of us over the next few years, and we look forward to delivering on this." **Lekan Akinyanmi, CEO** (subject to agreement with existing lenders), future capital expenditure and returns to equity holders.

The MOU is a significant milestone for LEKOIL and the Otakikpo Joint Venture. It secures the necessary funding, subject to the various conditions being satisfied, to drill the additional wells required to unlock further value and it provides the opportunity, through the transformation of operations infrastructure, to capture additional revenue along the value chain.

In September, the Joint Venture partners agreed to the phased development project. In a joint on-site review by Otakikpo Joint Venture and Schlumberger, it was verified that the existing production facility has capacity to produce 10,000 bopd and up to 12,000 bopd, gross with further debottlenecking. The Joint Venture expects the first two wells of the phased development plan of the project to bring production up to this level.

Production from Otakikpo in the first half of 2019 averaged 5,822 bopd gross with 2,329 bopd net to LEKOIL, compared to 2,042 bopd for the same period in 2018. Downtime was zero days. Capital expenditure for the full year is currently expected to be US$5.1 million, principally focused on infrastructure upgrades, of which approximately US$2.7 million was spent in the first half (all amounts net to LEKOIL).

Appraisal – OPL 310

We announced at the end of March that a Federal High Court had ruled against the Company in its legal action to expedite the granting of Ministerial consent for our acquisition of a 22.86 per cent stake in OPL 310 in November 2015. Our original 17.14 per cent interest received Ministerial consent in 2017. At the time of the ruling, we were in the process of requesting an extension to the licence, which expired in February 2019. Subsequently, in May, we received a letter from the Ministry of Petroleum Resources stating that ownership of OPL 310 had reverted to the Government, in line with Petroleum Act and that re-award would not be considered until the suit filed by LEKOIL was withdrawn. We decided to withdraw the legal action and continued negotiations with partner Optimum Petroleum Development Limited and the Ministry to seek re-award and to come to an agreement with our partner.

On the back of this approach, we were pleased to report post the period end, on 30 August, that we had reached a resolution. The Company has executed a legally binding agreement with Optimum to progress appraisal and development programme activities at Ogo. Optimum and LEKOIL are initially targeting a two-well programme over the next twelve to eighteen months, subject to receiving an extension of the OPL 310 licence from the Ministry of Petroleum Resources for the block and securing the necessary funding for the programme. Under the terms of this agreement, LEKOIL will pay Optimum approximately US$12.5 million in respect of Optimum's past costs and fees, as previously announced on 30 August 2019. This amount includes US$2.0 million in outstanding G&A arrears, a US$5.0 million Operator's fee in regard to LEKOIL's 17.14 per cent participating interest and US$5.5 million for the Operator's sunk cost.

LEKOIL and Optimum have also agreed to drill two additional appraisal-development wells, contingent on the results of the initial two well appraisal campaign and the associated extended well tests to be undertaken. All wells will be designed to be compatible with an early production scheme.

LEKOIL and Optimum have agreed to use the disputed 22.86 per cent interest in OPL 310 as a potential funding and security vehicle for the accelerated development of the Block by an industry partner or a third party that elects to farm-in to the block to fund field development ("the Potential Funding Partner"). Although the agreement does not address the recovery of the US$13.0 million consideration previously paid by LEKOIL with respect to the acquisition of the shares of Afren Oil & Gas (Nigeria) Limited ("AOGNL") in 2015 (which held the 22.86 per cent. participating interest in OPL 310), LEKOIL is working with Optimum on a resolution of this matter alongside the possible allocation of the 22.86 per cent to a Potential Funding Partner, and remains hopeful that an agreement can be reached.

The understanding with Optimum enables us to start to work closely with them to unlock significant value for our investors and all stakeholders, not only with the appraisal potential identified at Ogo, but also with the other promising exploration leads readily identifiable in OPL 310.

On 6 September LEKOIL announced that the Ministry of Petroleum Resources has approved the extension of the licence for three years, subject to the holders of the licence paying an extension fee of US$7.5 million, which will be funded 100 per cent by LEKOIL. The Company expects to fully fund this fee from a mix of existing financial resources and the Potential Funding Partner as referred to above. The resolution with Optimum and the recently announced licence extension allows the licence holders to progress and secure the Potential Funding Partner before commencing the initial appraisal campaign.

Exploration – OPL 325

OPL 325 was initially identified as an area of interest to us in our proprietary Dahomey Basin study of the western side of the Niger Delta. We believe it to be a promising exploration asset containing an exciting deep water turbidite fan play. The licence covers an area of some 1,200 square kilometres and has gross unrisked prospective resources estimated by Lumina Geophysical of 5,067 MMbbls. LEKOIL holds a 62 per cent indirect equity interest in OPL 325.

We are awaiting the execution of the Production Sharing Contract ("PSC") for the licence, at which point LEKOIL is due to pay US$0.95 million to the seller as a back-cost reimbursement. In addition we are performing some portfolio work to ready one of the prospects for drilling. Once these are complete we intend to begin the farm-down process.

Appraisal – OPL 276

In August, we announced that we would be acquiring a 45 per cent participating interest in the Production Sharing Contract ("PSC") in relation to OPL 276, covering a territory located onshore in the eastern Niger Delta basin. The agreed acquisition, from Newcross Petroleum Limited ("Newcross"), is for a total staged consideration of US$5.0 million, subject to certain milestones. The licence is covered by approximately 150 sq. kilometres of 3D seismic, shot in 2008 by BGP Inc., a subsidiary of China National Petroleum Company, as well as various 2D seismic surveys. It is in close proximity to three existing producing fields, all less than 20 kilometres away.

Newcross has previously identified ten prospects and seven leads in the area

Chairman's and CEO's statement

covered by the licence. Four wells have been drilled in the licence area, resulting in four discoveries (two oil and two gas). Preliminary resource estimates by Newcross, which have not yet been independently verified by the Company, based on data from the four wells, reported gross recoverable volumes of 29 million barrels of oil and 333 Bcf of gas, upside of 33 million barrels of oil and 476 Bcf of gas (recoverable).

The acquisition of an interest in the OPL 276 PSC puts in place a potential near-term producing asset with significant resource potential. We are optimistic about the prospects here, which have shallow reservoirs and are cost efficient to develop. Our focus will now shift to moving plans quickly forward for oil and gas production.

Results

In the six months ended 30 June 2019, the Group recorded a profit from operating activities of US$0.5 million (2018: US$3.0 million), a loss after tax for the period of US$5.2 million (2018: US$1.8 million), and ended the period with cash and cash equivalents of US$7.0 million. Outstanding debt financing less cash was US$8.8 million, a decrease from US$10.1 million at the end of 2018. The Company continues to target a 25 per cent run rate reduction of general and administrative costs, inclusive of Board remuneration. Post the reporting period, OPL 310 licence extension notification was received, subject to the payment of the necessary extension fee of US$7.5 million by the end of October 2019. Increased activity on this and other assets during 2020 may impact elements of this G&A initiative.

Board Changes

Greg Eckersley, until recently the Global Head of Internal Equities at the Abu Dhabi Investment Authority and a Non-Executive Director of LEKOIL since IPO, has been serving in the role of interim Chief Financial Officer ("CFO") since July 2019. Greg was until the appointment as interim CFO the Chairman of LEKOIL's Remuneration Committee and a member of the Company's Audit and Risk Committee. We are in the process of identifying candidates for the role of a permanent CFO who will be based primarily in Nigeria. Aisha Oyebode, Non-Executive Director and a member of LEKOIL's Remuneration Committee, has replaced Greg on this committee, currently serving as Chairwoman. Additionally, Tom Schmitt, Non-Executive Director, has replaced Greg on the Audit and Risk Committee and has also joined the Remuneration Committee.

Outlook

The last three years have provided LEKOIL with the opportunity to secure attractive assets and prepare to monetise the significant value that we believe exists in both our existing and recently acquired opportunities. Once the requisite financing has been secured, we feel confident that as we look forward, our team of talented, experienced employees will now be able to focus on growing the Company, developing our assets, and making their mark in our industry.

In the past we have often commented on our belief that if given the opportunity, we would seek to successfully transform our assets into world class producers that generate attractive returns for our shareholders, our employees, our partners and all our stakeholders.

The recent settlement with Optimum, receipt of the OPL 310 licence extension from the Nigerian Government and encouraging progress made in preparing to commence work on all our other interests, leads us closer to delivering on this commitment. We thank our shareholders for their continued patience and remain optimistic that the outlook is set to improve. We are excited about what we see is in prospect for all of us over the next few years, and we look forward to delivering on this.

On behalf of the Board, we would like to again thank all of our stakeholders for their continued support and patience as we seek to create value from our high quality portfolio of assets.

Samuel Adegboyega
Non-Executive Chairman

Lekan Akinyanmi
Chief Executive Officer

26 September 2019

Financial review

For the six months ended 30 June 2019, the Group recorded a profit from operating activities of US$0.5 million (30 June 2018: profit of US$3.0 million) and ended the period with cash and bank balances of US$7.0 million. Outstanding debt financing less cash was US$8.8 million, (a decrease from US$10.1 million at the end of 2018). Cash and bank balances as at 31 August 2019 were US$8.3 million, with debt financing amounting to US$13.9 million.

Interim results
The Group recorded a total comprehensive loss of US$5.2 million for the six months ended 30 June 2019 (30 June 2018: profit of US$1.8 million).

Revenue
The Group recorded revenue totalling US$22.3 million, representing the Group's share of crude oil sales from its Otakikpo operation during the period, which is recognised as revenue ("equity crude"), (30 June 2018: US$22.4 million). The Group's share of equity crude was 362,077 barrels out of which it lifted 345,746 barrels (30 June 2018: 333,429 barrels). The balance of 16,331 barrels represents crude over allocated to partner Green Energy International Limited ("GEIL") during the May 2019 lifting allocation.

Cost of sales, operating expenses and administrative expenses
Cost of sales was US$8.2 million (30 June 2018: US$9.4 million). Operating expenses and general & administrative expenses were US$4.3 million and US$9.3 million respectively (30 June 2018: US$1.1 million and US$8.9 million). The Company continues to target a 25 per cent run rate reduction of general and administrative costs ("G&A"), inclusive of Board remuneration. Post the reporting period, OPL 310 licence extension notification was received. Increased activity on this and other assets during 2020 may impact elements of this G&A initiative.

Income tax
Income tax expense for the six months ended 30 June 2019 amounted to US$4.0 million (30 June 2018: US$2.2 million).

Capital expenditure
The Group's capital expenditure during the six months ended 30 June 2019 amounted to US$2.7 million, compared to US$3.9 million for the corresponding period in 2018. This was mostly attributable to expenditure at Otakikpo to expand storage and enhance production facilities.

Cash and bank balances
The Group had cash and bank balances of US$7.0 million as at 30 June 2019 (31 December 2018: US$10.4 million). Also included in other assets is US$3.3 million cash funding of the debt service reserve accounts of the FBN Capital Notes and the Shell Western facility.

Loans and borrowings
Principal repayments of US$5.2 million were made on the FBN Capital and Shell Western facilities during the period.

The balance on the loan facilities as at 30 June 2019 was the equivalent of US$15.8 million (31 December 2018: US$20.5 million). Accordingly, the Group's outstanding debt financing less cash was US$8.8 million, (a decrease from US$ 10.1 million at the end of 2018). The balance on the loan facilities as at 31 August 2019 was US$13.9 million and cash balances at that date were US$8.3 million.

Summary statement of financial position
The Group's non-current assets decreased slightly from US$194.9 million as at 31 December 2018 to US$188.0 million as at 30 June 2019. Current assets, which represent the Group's cash resources, trade receivables, pre-paid development costs, other assets and other receivables, decreased from US$31.5 million as at 31 December 2018 to US$24.0 million as at 30 June 2019. The decrease is a result of a reduction in trade receivables and the GEIL cash call receivable.

Current liabilities as of 30 June 2019 were US$23.8 million (31 December 2018: US$30.2 million) consisting of the portion of the loan facilities due within twelve months, amounting to US$10.4 million (31 December 2018: US$11.4 million), trade and other payables amounting to US$9.4 million (31 December 2018: US$13.7 million) and current tax payables amounting to US$4.0 million (31 December 2018: US$5.1 million).

Non-current liabilities consist mainly of the long-term portion of the loan facilities amounting to US$5.4 million (31 December 2018: US$9.1 million).

Loans and borrowings
The Group had the following debt facilities in place as at 30 June 2019:

In US$'000	Interest rate p.a.	30 Jun 2019	31 Dec 2018
US$10 million FBNC Dollar Facility	LIBOR + 10%	**4,438**	4,831
FBNM Facility (for Redenomination)	LIBOR + 10%	**6,704**	8,191
US$15 million Shell Facility	LIBOR + 10%	**4,607**	7,463
Total		**15,749**	20,485

Accordingly net assets at 30 June 2019 amounted to US$180.7 million, down from US$185.3 million at 31 December 2018.

Dividend

The Directors do not recommend the payment of a dividend for the period ended 30 June 2019.

Accounting policies

The Group's significant accounting policies and the significant judgments and critical accounting estimates are consistent with those used in the 2018 annual financial statements.

Liquidity risk management and going concern

The Group closely monitors and manages its liquidity risk and ability to service debt as it falls due. Cash forecasts are regularly produced, and sensitivities run for different scenarios including (but not limited to) changes in production rates and commodity pricing, and cost overruns for approved projects.

At 30 June 2019, the Group had liquid resources of approximately US$7.0 million, in the form of cash and bank balances which are available to meet capital, operating and administrative expenditure. US$3.3 million of cash used for the debt service reserve accounts is included in other assets.

These interim condensed consolidated financial statements have been prepared on the going concern basis of accounting, which assumes the Group will continue in operation for the foreseeable future and be able to realise its assets and discharge its liabilities and commitments in the normal course of business. There is however a material uncertainty that can cast a significant doubt on the Group's ability to continue as a going concern which is discussed below.

The ability of the Group to continue to operate as a going concern is dependent on several factors considered by the Directors as disclosed in note 2 (b) to the financial statements, which include:

- The ability of the Group to maintain steady state production and liftings on the Otakikpo marginal field, and its operational performance continuing in line with expectations
- Commodity pricing – given that there is no oil price hedging currently in place other than that required by lenders for debt service
- Availability of financing for the various payments due in the period to January 2020 in respect of OPL 310 to operator Optimum in accordance with the agreement executed in August 2019, amounting to approximately US$20.0 million (which includes the US$7.5 million due to the Nigerian Ministry of Petroleum Resources by 30 October 2019 in respect of the licence extension)
- Availability of financing for the appraisal and development of OPL 310, which is not currently factored in to the cash forecasts
- Availability of financing for obligations under the OPL 276 and OPL 325 licences in the next 12 months
- Ability to reduce costs and defer activities to future periods in the event required
- Financing available from debt markets, equity markets and/or alternative sources to fund growth opportunities.

The Company is in discussions with various providers of finance in respect of OPL 310 and OPL 276, as previously announced. The outcome from these discussions, and the factors identified above, are outside the Company's sole control, and so there is a material uncertainty that may cast significant doubt on the use of the going concern basis of accounting. In the event the financing discussions are not concluded successfully such that financing is not available when liabilities are due for settlement, the Company will need to seek deferral of the dates certain contractual and other payments are due, agreement to which may not be forthcoming. However, having considered all these factors, the Directors currently have a reasonable expectation that the required financing will be available in order for the Group to meet its liabilities as they fall due in the next 12 months from the date of finalising these interim financial statements.

Accordingly the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and therefore the Directors continue to adopt the going concern basis of accounting in preparing these interim financial statements. The financial statements do not include the adjustments which may be needed should the Group be unable to continue as a going concern.

Gregory Eckersley
Interim Chief Financial Officer

26 September 2019

Independent Auditor's report on review of condensed interim financial information

To the Members of LEKOIL Limited

Introduction

We have been engaged by LEKOIL Limited ("the Company") to review the condensed consolidated financial statements in the half-year financial report for the six months ended 30 June 2019 which comprises the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes in the interim financial information as at 30 June 2019. We have read the other information contained in the half-year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Our work has been undertaken so that we might state to the Company those matters we are required to disclose in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusion we have formed.

Directors' responsibilities

The half-year financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the condensed consolidated financial statements included in the half-year financial report in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed consolidated financial statements in the half-year financial report based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements in the half-year financial report for the six months ended 30 June 2019 is not prepared in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Olufemi Abegunde
FCA-FRC/2013/ICAN/00000004507
For: Deloitte & Touche
Chartered Accountants
Lagos, Nigeria

September 2019

Consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 June 2019

	Notes	(Unaudited) 6 months to 30 June 2019 US$'000	(Unaudited) 6 months to 30 June 2018 US$'000
Revenue	6	**22,290**	22,387
Cost of sales	7	**(8,155)**	(9,363)
Gross profit		**14,135**	13,024
Operating expenses	8	**(4,267)**	(1,110)
General & administrative expenses	9	**(9,334)**	(8,865)
Profit from operating activities		**534**	3,049
Finance income	10	**58**	3,724
Finance costs	10	**(1,759)**	(2,821)
Net finance (expense)/income		**(1,701)**	903
(Loss)/profit before income tax		**(1,167)**	3,952
Income tax expense	11	**(4,016)**	(2,189)
(Loss)/profit for the period		**(5,183)**	1,763
Total comprehensive (loss)/profit for the period		**(5,183)**	1,763
Total comprehensive loss attributable to:			
Owners of the Company		**(5,060)**	1,208
Non-controlling interests		**(123)**	555
		(5,183)	1,763
Loss per share:			
Basic (loss)/profit per share ($)	12	**(0.009)**	0.002
Diluted (loss)/profit per share ($)		**(0.009)**	0.002

The notes are an integral part of these consolidated interim financial statements.

Condensed consolidated statement of financial position

	Notes	(Unaudited) 30 June 2019 US$'000	(Audited) 31 December 2018 US$'000
Assets			
Property, plant and equipment	13	**34,714**	38,436
Exploration and evaluation assets	14	**131,937**	131,822
Intangible assets	15	**3,773**	4,629
Deferred tax assets	11	**15,712**	18,296
Other receivables	18	**1,812**	1,708
Total non-current assets		**187,948**	194,891
Inventories	16	**3,223**	1,639
Trade receivables	17	**3,910**	8,814
Other receivables	18	**3,626**	5,783
Other assets	19	**6,226**	3,864
Prepaid development costs	20	**–**	931
Cash and bank balances	21	**7,044**	10,423
Total current assets		**24,029**	31,454
Total assets		**211,977**	226,345
Trade and other payables	24	**9,413**	13,623
Current tax payables	11	**4,025**	5,124
Loans and borrowings	26	**10,349**	11,439
Current liabilities		**23,787**	30,186
Provision for asset retirement obligation	25	**2,086**	1,808
Loans and borrowings	26	**5,400**	9,046
Non-current liabilities		**7,486**	10,854
Total liabilities		**31,273**	41,040
Net assets		**180,704**	185,305
Capital and reserves			
Share capital	22	**27**	27
Share premium	22	**264,004**	264,004
Accumulated deficit		**(88,708)**	(83,648)
Other reserve		**22**	22
Share based payment reserve		**9,431**	8,849
Equity attributable to owners of the Company		**184,776**	189,254
Non-controlling interests	23	**(4,072)**	(3,949)
Total equity		**180,704**	185,305

These financial statements were approved by the Board of Directors on 26 September 2019 and signed on its behalf by:

Olalekan Akinyanmi – Chief Executive Officer **Greg Eckersley –** Interim Chief Financial Officer

The notes are an integral part of these consolidated interim financial statements.

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2019

In US$'000	Share capital	Share premium	Accumulated deficit	Other reserve	Share-based payments reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2019 (audited)	27	264,004	(83,648)	22	8,849	189,254	(3,949)	185,305
Total comprehensive income for the period								
Loss for the period	–	–	(5,060)	–	–	(5,060)	(123)	(5,183)
Total comprehensive income for the period	–	–	(5,060)	–	–	(5,060)	(123)	(5,183)
Transactions with owners of the Company								
Share-based payment – personnel expenses	–	–	–	–	582	582	–	582
Total transactions with owners of the Company	–	–	–	–	582	582	–	582
Balance at 30 June 2019 (unaudited)	**27**	**264,004**	**(88,708)**	**22**	**9,431**	**184,776**	**(4,072)**	**180,704**

For the six months ended 30 June 2018

In US$'000	Share capital	Share premium	Accumulated deficit	Other reserve	Share-based payments reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2018 (audited)	27	264,004	(61,855)	22	7,675	209,873	(4,090)	205,783
Total comprehensive income for the period								
Profit for the period	–	–	1,208	–	–	1,208	555	1,763
Total comprehensive income for the period	–	–	1,208	–	–	1,208	555	1,763
Transactions with owners of the Company								
Share-based payment – personnel expenses	–	–	–	–	648	648	–	648
Total transactions with owners of the Company	–	–	–	–	648	648	–	648
Balance at 30 June 2018 (unaudited)	27	264,004	(60,647)	22	8,323	211,729	(3,535)	208,194

The notes are an integral part of these consolidated interim financial statements.

Condensed consolidated statement of cash flows

For the six months ended 30 June

	Notes	(Unaudited) 6 months to 30 June 2019 US$'000	(Unaudited) 6 months to 30 June 2018 US$'000
Cash flows from operating activities			
(Loss)/profit for the period		**(5,183)**	1,763
Adjustments for:			
– Equity-settled share-based payment		**582**	648
– Foreign exchange rate changes in loans and borrowing		**436**	(15)
– Deferred tax	11	**2,584**	–
– Prepaid development costs carried interest		**–**	(1,759)
– Finance cost		**1,491**	3,036
– Depreciation and amortisation	13,15	**5,673**	4,840
Cash flow generated from/(used in) operations before working capital adjustments		**5,583**	8,513
Changes in:			
Inventory		**(1,584)**	(590)
Deferred income		**–**	(1,313)
Trade and other payables		**(2,370)**	(12,380)
Trade receivables		**4,904**	(4,835)
Other assets		**(2,360)**	2,051
Other receivables		**2,053**	3,013
Income taxes		**1,432**	2,189
Net cash generated from/(used in) operating activities		**7,658**	(3,352)
Income tax paid		**(2,531)**	(218)
		5,127	(3,570)
Cash flows from investing activities			
Acquisition of property, plant and equipment	13	**(906)**	(2,416)
Prepaid development costs	20	**–**	(993)
Recoveries from prepaid development costs	20	**931**	18,215
Acquisition of exploration and evaluation assets	14	**(1,955)**	(1,509)
Net cash (used in)/generated from investing activities		**(1,930)**	13,297
Cash flows from financing activities			
Draw down of loan facilities	26	**–**	2,311
Repayment of loan	26	**(5,210)**	(7,419)
Interest and transaction costs related to loan	26	**(1,366)**	(1,703)
Net cash used in financing activities		**(6,576)**	(6,811)
Net increase/(decrease) in cash and cash equivalents		**(3,379)**	2,916
Cash and cash equivalents at 1 January		**10,423**	6,922
Cash and cash equivalents at end of period		**7,044**	9,838

The notes are an integral part of these consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements

1. Reporting entity

LEKOIL Limited (the "Company" or "LEKOIL") is a company domiciled in the Cayman Islands. The address of the Company's registered office is Intertrust Group, 190 Elgin Avenue, Georgetown, Grand Cayman, Cayman Islands. These condensed consolidated financial statements (interim financial statements) as at and for the six months ended 30 June 2019 include the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group's principal activity is exploration and production of oil and gas.

2. Basis of preparation

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2018.

These interim financial statements were authorised for issue by the Company's Board of Directors on 26 September 2019.

(b) Going concern basis of accounting

These unaudited condensed consolidated interim financial statements have been prepared on the going concern basis of accounting, which assumes that the Group will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is however a material uncertainty that can cast significant doubt on the Group's ability to continue as a going concern which is discussed below.

The Group had a positive operating cash flow of US$5.1 million for the period ended 30 June 2019 (30 June 2018: US$3.6 million, negative operating cash flow) and as of that date the Group's accumulated deficit amounted to US$88.7 million (31 December 2018: US$83.7 million). As of 30 June 2019, the Group had net assets of US$180.7 million (31 December 2018: US$185.3 million), and debt less cash of US$8.8 million (31 December 2018: US$10.1 million).

The Directors have prepared cash flow forecasts for the next 12 months based on best estimates of future inflows and outflows of cash on various scenarios, to support their assessment of the Company's ability to continue as a going concern. The ability of the Group to continue to operate as a going concern is dependent on a number of factors considered by the Directors, including the following:

- The ability of the Group to maintain steady state production and liftings on the Otakikpo marginal field, and its operational performance continuing in line with expectations
- Commodity pricing – given that there is no oil price hedging currently in place other than that required by lenders for debt service
- Availability of financing for the various payments due in the period to January 2020 in respect of OPL 310 to operator Optimum in accordance with the agreement executed in August 2019, amounting to approximately US$20 million (which includes the US$7.5 million due to the Nigerian Ministry of Petroleum Resources by 30 October 2019 in respect of the licence extension)
- Availability of financing for appraisal and development of OPL 310, which is not currently factored in to the cash forecasts
- Availability of financing for obligations under the OPL 276 and OPL 325 licences in the next 12 months
- Ability to reduce costs and defer capital activities to future periods in the event required
- Financing available from debt markets, equity markets and/or alternative sources to fund growth opportunities.

The Company is in discussions with various providers of finance in respect of OPL 310 and OPL 276, as previously announced. The outcome from these discussions, and the factors identified above, are outside the Company's sole control, and so there is a material uncertainty that may cast significant doubt on the use of the going concern basis of accounting. In the event the financing discussions are not concluded successfully such that financing is not available when liabilities are due for settlement, the Company will need to seek deferral of the dates certain contractual and other payments are due, agreement to which may not be forthcoming. However, having considered all these factors, the Directors have a reasonable expectation that the required financing will be available in order for the Group to meet its liabilities as they fall due in the next 12 months from the date of finalising these interim financial statements.

Accordingly the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and therefore the Directors continue to adopt the going concern basis of accounting in preparing these interim financial statements. The financial statements do not include the adjustments which may be needed should the Group be unable to continue as a going concern.

3. Use of estimates and judgments

The judgements, estimates and assumptions applied in the preparation of these condensed consolidated interim financial statements are consistent with those of the annual financial statements for the year ended 31 December 2018.

4. Significant accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are consistent with those of the annual financial statements for the year ended 31 December 2018 except for IFRS 16 which is described below.

IFRS 16 – Leases
IFRS 16 Leases, was issued in January 2016 and became effective for reporting periods beginning on or after 1 January 2019. It replaces the provisions of IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and permits the recognition of all leases in a similar manner to finance leases in accordance with IAS 17. Leases are capitalised by recognising the present value of the lease payments and presenting them as either lease assets or together with property plant and equipment and a corresponding financial liability representing future lease payments obligation is recognised. However, leases with lease terms of one year or less with no option to buy are exempted. The Group's leases as at 30 June 2019 are not within the scope of IFRS 16, as they consist mainly of rental office spaces and guest houses with lease terms of not more than one year.

A number of additional amendments to existing standards and interpretations were effective from 1 January 2019. The adoption of these amendments did not have a material impact on the Group's condensed consolidated interim financial statements for the half year ended 30 June 2019.

5. Operating segments

The Group has a single class of business which is exploration, development and production of petroleum oil and natural gas. The geographical areas are defined by the Group as operating segments in accordance with IFRS 8 Operating Segments.

Geographical information
In presenting information based on geographical segments, segment assets are based on the geographical location of the assets.

Non-current assets

	(Unaudited) 30 June 2019 US$'000	(Audited) 31 December 2018 US$'000
Nigeria	186,176	193,176
Cayman*	1,765	1,708
Others	7	7
	187,948	194,891

Non-current assets presented consists of property, plant & equipment, intangible assets, long term prepayment, other receivables and exploration and evaluation (E&E) assets.

5. Operating segments continued

	30 June 2019				
	Nigeria US$'000	**Namibia US$'000**	**Cayman Islands US$'000**	**Others US$'000**	**Total US$'000**
Revenue	**22,290**	**–**	**–**	**–**	**22,290**
Profit/(loss) from operating activities	**5,109**	**(14)**	**(3,006)**	**(1,555)**	**534**
Net finance income/(costs)	**(1,751)**	**–**	**55**	**(5)**	**(1,701)**
Income tax expense	**(4,016)**	**–**	**–**	**–**	**(4,016)**
Total comprehensive loss/(profit) for the period	**(658)**	**(14)**	**(2,951)**	**(1,560)**	**(5,183)**

	30 June 2018				
	Nigeria US$'000	Namibia US$'000	Cayman Islands US$'000	Others US$'000	Total US$'000
Revenue	22,387	–	–	–	22,387
Profit/(loss) from operating activities	7,151	(15)	(3,445)	(576)	3,049
Net finance income/(costs)	931	(51)	37	(14)	903
Income tax expense	(2,189)	–	–	–	(2,189)
Total comprehensive profit/(loss) for the period	5,893	(132)	(3,408)	(590)	1763

*Cayman Island and USA segments have been merged into one segment.

6. Revenue

	(Unaudited) 30 June 2019 US$'000	(Unaudited) 30 June 2018 US$'000
Crude sales proceeds	**22,290**	22,387

Crude sales proceeds of US$22.3 million represents the Group's share of crude oil sales from its Otakikpo operation during the period (30 June 2018: US$22.4 million). The Group's equity crude was 362,077 barrels out of which the Group lifted 345,746 barrels (30 June 2018: 333,429[1] barrels). The balance of 16,331 barrels represents the crude overallocated to Green Energy International Limited ("GEIL") during the May 2019 lifting allocation. The over lift has been refunded by GEIL as part of the July 2019 lifting.

1. Of the 680,654 barrels lifted in the period to 30 June 2018, 333,429 barrels represents equity crude recognized as revenue while the balance of 347,225 barrels was recognized as cost recovery crude.

7. Cost of sales

	(Unaudited) 30 June 2019 US$'000	(Unaudited) 30 June 2018 US$'000
Depreciation and amortisation	**4,652**	3,715
Crude handling, evacuation and production operation costs	**3,417**	2,937
Royalty expenses	**2,202**	3,231
Closing stock adjustments	**(2,116)**	(590)
Other expenses	**–**	70
	8,155	9,363

8. Operating expenses

	(Unaudited) 30 June 2019 US$'000	(Unaudited) 30 June 2018 US$'000
Field support costs	**2,761**	373
Community and security expenses	**1,506**	737
	4,267	1,110

9. General & administrative expenses

	(Unaudited) 30 June 2019 US$'000	(Unaudited) 30 June 2018 US$'000
Personnel expenses	**3,602**	4,063
Depreciation and amortisation	**1,021**	1,126
Rent expenses	**617**	796
Niger Delta Development Commission Levy (NDDC)	**357**	–
IT and telecommunication	**487**	512
Travel costs	**462**	502
Consultancy costs	**1,224**	818
Office and facility management costs	**264**	168
Bank charges	**78**	48
Donations, publicity and public relations	**222**	204
Other (a)	**1,000**	628
	9,334	8,865

(a) Other general and administrative expenses within the period relate to insurance services, legal fees and other miscellaneous expenses.

Notes to the condensed consolidated interim financial statements

Continued

10. Finance income and costs

	(Unaudited) 30 June 2019 US$'000	(Unaudited) 30 June 2018 US$'000
Finance income		
Joint venture partner carry interest income	–	3,072
Other interest income (a)	58	85
Net foreign exchange gain (b)	–	567
	58	3,724
Net foreign exchange loss (b)	(103)	–
Finance costs (c)	(1,656)	(2,821)
	(1,759)	(2,821)

(a) Other interest income

Other interest income consists mainly of interest on an unsecured loan of US$1,500,000 granted to a Director on 9 December 2014, which matures on 9 December 2020, at an interest rate of four per cent per annum, and interest earned from investments of the Group's cash resources in fixed deposit and call accounts.

(b) Net foreign exchange gain

Foreign exchange gain results from the conversion of US Dollar amounts to Nigerian Naira amounts, to meet obligations settled in Nigerian Naira.

(c) Finance costs

Finance costs consist largely of interest costs on third party loans during the period.

11. Taxes

(a) Petroleum profit tax

The Group with its principal assets and operations in Nigeria is subject to the Petroleum Profit Tax Act of Nigeria (PPTA). The Group's Petroleum Profit Tax charge for the period is summarised below:

	(Unaudited) 30 June 2019 US$'000	(Audited) 31 December 2018 US$'000
Balance at 1 January	2,889	218
Charge for the period	1,193	2,493
Tertiary education tax	239	396
Payment for the period	(1,881)	(218)
Balance at period end	2,440	2,889

11. Taxes continued

(b) Company income tax

Interest on recovered carried cost and technical fees earned on the Otakikpo operations of the Group is subject to Company Income Tax Act of Nigeria (CITA). There was no Company Income Tax charge for the period, as the Group is out of cost recovery and no longer earns interest on carried cost and technical fees:

	(Unaudited) 30 June 2019 US$'000	(Audited) 31 December 2018 US$'000
Balance at 1 January	**2,235**	1,694
Charge for the period	**–**	2,095
Tertiary education tax	**–**	140
Payment for the period	**(650)**	(1,694)
Balance at period end	**1,585**	2,235

(c) Deferred tax assets

The Group has an estimated deferred tax asset of US$105.1 million (31 December 2018: US$95.8 million), out of which US$15.7 million represents the balance of deferred tax assets recognized as at 30 June 2019, derived from the activities of its subsidiary LEKOIL Oil and Gas Investments Limited. The Directors have assessed the future profitability of the operation at the Otakikpo marginal field and have a reasonable expectation that the Group will make enough taxable profit from LEKOIL Oil and Gas Investments Limited in the near future to utilise the deferred tax assets. The balance of US$89.4 million of unrecognised deferred tax assets relates to unutilised capital allowances and tax losses from the Group's other subsidiaries in which the Directors are not certain when there will be available taxable profit from the subsidiaries to utilize these deferred tax assets.

	(Unaudited) 30 June 2019 US$'000	(Audited) 31 December 2018 US$'000
Recognised deferred tax assets	**15,712**	18,296
Unrecognised deferred tax assets	**89,376**	77,452
	105,088	95,748

(d) Current tax liabilities

	(Unaudited) 30 June 2019 US$'000	(Audited) 31 December 2018 US$'000
Balance at 1 January	**5,124**	1,912
Charge for the period		
– Petroleum profit tax	**1,193**	2,493
– Company income tax	**–**	2,095
– Tertiary education tax	**239**	536
Payment during the period	**(2,531)**	(1,912)
Balance at period end	**4,025**	5,124

(e) Total tax charge for the period is as follows:

	(Unaudited) 30 June 2019 US$'000	(Unaudited) 30 June 2018 US$'000
Petroleum profit tax	**1,193**	1,129
Company income tax	**–**	922
Tertiary education tax	**239**	268
Deferred tax	**2,584**	(130)
	4,016	2,189

12. Profit/(loss) per share

(a) The calculation of basic loss per share has been based on the following loss attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding:

(i) (Loss)/profit attributable to ordinary shareholders (basic and diluted)

	(Unaudited) 30 June 2019 US$'000	(Unaudited) 30 June 2018 US$'000
(Loss)/profit for the period attributable to owners of the Company	**(5,060)**	1,208

(ii) Weighted-average number of ordinary shares (basic and diluted)

	(Unaudited) 30 June 2019	(Unaudited) 30 June 2018
Issued ordinary shares at I January	**536,529,983**	536,529,983
Effect of share options	**–**	–
Weighted-average number of ordinary shares (diluted) at period end	**536,529,983**	536,529,983

(iii) (Loss)/profit per share

Basic (loss)/profit per share	**(0.009)**	0.002
Diluted (loss)/profit per share	**(0.009)**	0.002

13. Property, plant and equipment

(a) The movement on this account was as follows:

	Oil and gas assets US$'000	Motor vehicles US$'000	Furniture & fittings US$'000	Computers, communication & household equipment US$'000	Leasehold improvements US$'000	Plant, machinery, storage tank & others US$'000	Total US$'000
Cost:							
Balance at 1 January 2019	51,937	296	433	813	1,199	283	54,961
Additions	740	140	–	3	–	23	906
Adjustment (ARO)	188	–	–	–	–	–	188
Balance at 30 June 2019	**52,865**	**436**	**433**	**816**	**1,199**	**306**	**56,055**
Accumulated depreciation and impairment losses:							
Balance at 1 January 2019	14,220	245	330	675	956	99	16,525
Additions	4,651	23	39	60	6	37	4,816
Balance at 30 June 2019	**18,871**	**268**	**369**	**735**	**962**	**136**	**21,341**
Carrying amounts:							
30 June 2019 (Unaudited)	**33,994**	**168**	**64**	**81**	**237**	**170**	**34,714**
31 December 2018 (Audited)	37,717	51	103	138	243	184	38,436

14. Exploration and evaluation (E&E) assets

E & E assets represent the Group's oil mineral rights acquisition and exploration costs.

(a) The movement on the E&E assets account was as follows:

	(Unaudited) 30 June 2019 US$'000	(Audited) 31 December 2018 US$'000
Balance at 1 January	**131,822**	130,773
Additions during the period (b)	**1,955**	1,886
Derecognition of E&E expenditure	**–**	(554)
Other adjustments (c)	**(1,840)**	(283)
Balance at end of period	**131,937**	131,822

(b) The additions during the six-month period ended 30 June 2019 mainly relate the Group's evaluation and exploration expenditure in OPL 310. The total expenditure incurred on OPL 310 from inception to 30 June 2019 amounts to approximately US$117 million.

(c) In the period to 30 June 2019, legacy accruals relating to OPL 310 exploration and evaluation cost issued to Mayfair Assets and Trust limited by Afren Investment Oil and Gas Nigeria limited in 2015 was reversed as it could not be substantiated.

On 30 August 2019, the Group announced that it has reached a resolution with Optimum Petroleum Development Company ("Optimum"), its partner and the operator of OPL 310.

The Company has executed a legally binding agreement with Optimum to progress appraisal and development programme activities at the Ogo discovery (which sits within the block). Optimum and LEKOIL (together, the "Parties") are initially targeting a two-well programme over the next twelve to eighteen months, subject to receipt of the licence extension to OPL 310 and the Parties securing the necessary funding for the programme. Further details on this agreement are set out in notes 29(b) and 30(a).

On 6 September 2019, the Group announced that the Federal Government of Nigeria through the Ministry of Petroleum Resources has approved the extension of OPL 310 exploration licence for three years, subject to the payment of an extension fee of US$7.5 million within 90 days, effective from 2 August 2019. LEKOIL expects to fund 100 per cent of the licence extension fee from a mix of existing financial resources and a potential funding partner.

Following the positive developments regarding the resolution with Optimum and the licence extension referred to above, the Directors are of the opinion that the investment in OPL 310 is not impaired. In the event the extension is not concluded, all costs associated with the asset would be impaired to the profit and loss account.

15. Intangible assets

The movement on the intangible assets account was as follows:

	Mineral rights acquisition costs* US$'000	Geological and geophysical software US$'000	Accounting software US$'000	Total US$'000
Costs				
Balance at 1 January 2019	7,000	1,787	104	8,891
Additions during the period	–	–	–	–
Balance at 30 June 2019	**7,000**	**1,787**	**104**	**8,891**
Accumulated amortisation				
Balance at 1 January 2019	2,545	1,646	71	4,262
Additions during the period	746	77	33	856
Balance at 30 June 2019	**3,291**	**1,723**	**104**	**5,118**
Carrying amounts				
At 30 June 2019 (Unaudited)	**3,709**	**64**	**0**	**3,773**
At 31 December 2018 (Audited)	4,455	141	33	4,629

* Mineral rights acquisition costs represent the signature bonus for the Otakikpo marginal field amounting to $7.0 million.

16. Inventories

Inventories consist of the Group's share of crude stock amounting to US$3.2 million as at 30 June 2019 (31 December 2018: US$1.6 million).

17. Trade receivables

Trade receivables comprise:

	(Unaudited) 30 June 2019 US$'000	(Audited) 31 December 2018 US$'000
Sales proceeds receivable (a)	**3,910**	8,814

(a) Trade receivables consist of the balance due from the crude offtaker from the proceeds of the crude sales.

18. Other receivables

Other receivables comprise:

	(Unaudited) 30 June 2019 US$'000	(Audited) 31 December 2018 US$'000
Non-current		
Director's loan (b)	**1,743**	1,708
Other receivables	**69**	–
	1,812	1,708
Current		
Cash call receivable from joint venture partner- GEIL (a)	**3,163**	5,684
Employee loans and advances	**15**	4
Other receivables	**448**	95
	3,626	5,783

(a) The cash call due receivable from Otakikpo joint venture partner GEIL represents GEIL's share of cash calls paid by the Group on their behalf.

(b) The Director's loan represents the balance due on an unsecured loan of US$1,500,000 granted to a Director on 9 December 2014. The loan had a three-year term and bore interest at a rate of four per cent per annum. In September 2017, the loan was extended for another 3 years to 9 December 2020 under the same terms and conditions.

19. Other assets

Other assets comprise:

	(Unaudited) 30 June 2019 US$'000	(Audited) 31 December 2018 US$'000
Restricted cash (a)	**3,342**	3,166
Prepaid rent	**239**	309
Prepaid insurance	**499**	321
Others (b)	**2,146**	68
	6,226	3,864

(a) Restricted cash represents cash funding of the debt service reserve accounts for two quarters of interest for the FBN Capital Notes and one quarter of interest and principal payment of the Shell Western facility.

(b) Includes the Group's portion of Otakikpo JV bank balances as at the period end totalling US$1.6 million of which US$0.3 million relate to a lien amount held in FBN bank for the issuance of customs bonds.

20. Prepaid development costs

	(Unaudited) 30 June 2019 US$'000	(Audited) 31 December 2018 US$'000
Balance at 1 January	**931**	42,463
Adjustment	**–**	(10,615)
Additions during the period	**–**	2,839
Recoveries during the period	**(931)**	(34,055)
Interest for the period	**–**	299
Balance at period end	**–**	931

(a) Prepaid development costs represent GEIL's share of costs (60 per cent of joint operations' costs) in the Otakikpo marginal field. Under the terms of the farm-in agreement, LEKOIL Oil and Gas Investments Limited undertook to fund GEIL's participating interest share of all costs relating to the joint operations on the Otakikpo marginal field, until the completion of the Initial Work Programme. The Group has recovered costs at a rate of LIBOR plus a margin of 10 per cent through crude oil lifting when the field commences production. However, for expenditure above US$70 million, the recovery rate increased to LIBOR plus a margin of 13 per cent. The interest on carried costs has been included as part of the prepaid development costs.

The Group commenced recovery of prepaid development costs in April 2017, following the commencement of crude lifting. The sum of US$0.9 million was recovered during the period to 30 June 2019 (31 December 2018: US$34.1million). All agreed carried costs relating to the execution of the Initial Work Programme on the Otakikpo marginal field have now been fully recovered by the Group as at 30 June 2019.

21. Cash and bank balances

	(Unaudited) 30 June 2019 US$'000	(Audited) 31 December 2018 US$'000
Bank balances	**7,044**	10,423

22. Capital and reserves

(a) Share capital

	(Unaudited) 30 June 2019
Authorised (US$'000)	**50**
Total issued and called up share capital (US$'000)	**27**

	30 June 2019
In issue at 1 January (US$'000)	**27**
Issued for cash	**–**
In issue and fully paid, end of period (US$'000)	**27**
Authorised – par value $0.00005 (2018: $0.00005)	**1,000,000,000**

(b) Share premium

Share premium represents the excess of amount received over the nominal value of the total issued share capital as at the reporting date. The analysis of this account is as follows:

	(Unaudited) 30 June 2019 US$'000
Balance at 1 January	**264,004**
Issue of shares during the period	**–**
Balance at end of period	**264,004**

23. Non-controlling interest

	% of ownership	(Unaudited) 30 June 2019 US$'000	(Audited) 31 December 2018 US$'000
LEKOIL Nigeria Limited	10	**3,717**	3,603
LEKOIL Exploration and Production (Pty) Limited	20	**355**	346
		4,072	3,949

24. Trade and other payables

	(Unaudited) 30 June 2019 US$'000	(Audited) 31 December 2018 US$'000
Accounts payable	**3,341**	4,137
Accrued expenses	**1,550**	5,110
Non-government royalties	**572**	649
Other statutory deductions	**3,950**	3,601
Others	**–**	126
	9,413	13,623

25. Provision for asset retirement obligation

The movement in the provision for asset retirement obligation account was as follows:

	(Unaudited) 30 June 2019 US$'000	(Audited) 31 December 2018 US$'000
Balance at 1 January	**1,808**	107
Unwinding of discount	**90**	18
Effects of changes to decommissioning estimates	**188**	1,683
Balance at end of period	**2,086**	1,808

The Group has recognised a provision for asset retirement obligation ("ARO") which represents the estimated present value of the amount the Group will incur to plug, abandon and remediate the Otakikpo operation at the end of its productive life, in accordance with applicable legislations.

26. Loans and borrowings

The movement in the loan account was as follows:

	(Unaudited) 30 June 2019 US$'000	(Audited) 31 December 2018 US$'000
Balance at 1 January	**20,485**	29,509
Draw-down during the period	**–**	7,000
Effective interest during the period	**1,404**	4,699
Principal repayment during the period	**(5,210)**	(17,558)
Interest and fees paid during the period	**(1,366)**	(3,307)
Revaluation adjustments (exchange difference)	**436**	142
Balance at end of period	**15,749**	20,485
Non-current	**5,400**	9,046
Current	**10,349**	11,439
	15,749	20,485

The following are the outstanding balances of interest-bearing loans and borrowings as at the period end:

	Interest rate p.a.	30 June 2019 US$'000	31 Dec 2018 US$'000
US$10 million FBNC Dollar Facility	10% + LIBOR	**4,438**	4,831
US$8.45 million FBNM Dollar Facility	10% + LIBOR	**6,704**	8,191
US$15 million Shell Facility	10% + LIBOR	**4,607**	7,463
Total		**15,749**	20,485

27. Share-based payment arrangements

There have been no material changes in the share-based payment arrangements described in the 2018 annual financial statements of the Group.

28. Related party transactions

Transactions between LEKOIL Limited and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The Group had transactions during the period with the following related parties:

(a) Transactions with key management personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. These are the Directors of the Group.

(i) Key management personnel transactions
There is an outstanding balance of US$0.07 million (2018: US$0.33 million) with respect to well completion services rendered by SOWSCO Wells Services Nigeria Limited, a company controlled by a Director. There is an unsecured loan granted to a Director as disclosed in the Annual Report 2018, which at 30 June 2019 had a balance outstanding of US$1,742,946 (31 December 2018: US$1,707,947) and is included in other receivables (note 18).

(ii) Key management personnel compensation
In addition to their salaries, the Group also provides non-cash benefits to key management personnel, in the form of share-based payments.

29. Events after the reporting date

(a) On 23 August 2019, the Group announced that, subject to receipt of the required consents, it has agreed to acquire, through LEKOIL 276 Limited ("LEKOIL 276" which is a 100 per cent. owned subsidiary of LEKOIL Nigeria) a 45 per cent participating interest in the Production Sharing Contract ("PSC") relating to the Oil Prospecting Licence 276, covering a territory located onshore in the eastern Niger Delta Basin (the "Licence"). The agreed acquisition, from Newcross Petroleum Limited ("Newcross"), is for a total staged consideration of US$5.0 million (the "Consideration"), which is payable subject to the following milestones:

i. US$750,000 to be held in escrow starting from the extension of the term of the licence and to be released upon receipt of the Ministerial approval

ii. US$2.75 million to be paid after the Ministerial approval is obtained and upon occurrence of the conversion of the Licence to Oil Mining Lease ("OML"); and

iii. US$1.5 million, to be paid within three months after the receipt of first crude oil sale proceeds from continuous commercial production from the PSC.

LEKOIL 276 will also enter into an Interim Governance Agreement with Newcross and partner /local content vehicle, Albright Waves Petroleum Development, setting out the terms on which LEKOIL will provide technical support to the PSC.

Preliminary resource estimates by Newcross, based on data from four wells, reported gross recoverable volumes of 29 million barrels of oil and 333 Bcf of gas, upside of 33 million barrels of oil and 476 Bcf of gas (recoverable). LEKOIL has verified these estimates internally, but also intends to commission an independent Competent Persons Report in due course. LEKOIL sees a clear opportunity for re-entering one or more of these discovery wells, with the potential for rapid monetization of resources due to existing export facilities nearby.

The Company expects to finance the acquisition and the costs of the future asset work programme with a combination of its existing financial resources and a financing solution with a strategic industry partner.

On 30 August 2019, the Group announced that it has reached a resolution with Optimum Petroleum Development Company ("Optimum"), its partner and the Operator of OPL 310.

29. Events after the reporting date continued

(b) The Company has executed a legally binding agreement with Optimum to progress appraisal and development programme activities at the Ogo discovery (which sits within the block). Optimum and LEKOIL (together, the "Parties") are initially targeting a two-well programme over the next twelve to eighteen months, subject to:

i. receiving an extension of the OPL 310 licence from the Ministry of Petroleum Resources for the block; and

ii. the Parties securing necessary funding for the programme.

The Group's financial commitments and obligations under the agreement are set out in note 30(a) below.

(c) On 6 September 2019, the Group announced that the Federal Government of Nigeria through the Ministry of Petroleum Resources has approved the extension of OPL 310 exploration licence for three years, subject to the payment of an extension fee of US$7.5 million within 90 days, effective from 2 August 2019. LEKOIL expects to fund 100 per cent of the licence extension fee from a mix of existing financial resources and a potential funding partner.

Other than the matters disclosed above, there are no other events between the reporting date and the date of authorising these interim financial statements that have not been adjusted for or disclosed in these condensed consolidated financial statements.

30. Financial commitments and contingencies

(a) On 22 August 2019, the Group, through Mayfair Assets & Trust limited ("Mayfair" which is a 100 per cent owned subsidiary of LEKOIL Nigeria) executed a Cost and Revenue Sharing Agreement ("Agreement") with Optimum Petroleum Development Limited. The Group's obligations and financial commitments in the Agreement are as follows:

i. Payment of approximately US$3.0 million to Optimum in respect of previously outstanding G&A arrears. Approximately US$1 million has been paid to date, with the balance to be paid by mid October 2019.

ii. Payment of US$5.0m to Optimum for an Operator's fee regarding LEKOIL's 17.14 per cent participating interest upon receipt of the licence extension.

iii. The Agreement also makes provision for LEKOIL to pay Optimum certain production prepayments from the proceeds of a continuous sale of crude oil produced from Ogo, such amounts being subject to 2P reserves or aggressive production milestones being achieved. The payments, once due, include a US$10m per year payment for five years following completion of a successful well (being a well capable of producing 5,000 bbl/d of Crude Oil).

iv. Further, LEKOIL has agreed to pay (a) 42.85 per cent of US$10m payable to the Nigerian Government on conversion of OPL 310 to an OML and (b) 42.85 per cent of US$10 million to the Nigerian Government on reaching First Oil. The balance of the two US$10 million payments will be made by the potential funding partner.

v. Upon receipt of the licence extension, LEKOIL will also pay the Ministry of Petroleum Resources the fee prescribed by the Minister of Petroleum Resources in respect of the extension, which is the sum of US$7.5 million.

   In addition, LEKOIL will cover 42.85 per cent of the capital expenditures and operating expenses of the Block to First Oil, being its 17.14 per cent pro rata of an aggregate 40 per cent participating interest held by it and the potential funding partner. The potential funding partner will cover the remaining 57.15 per cent of the capital expenditures.

vi. All payments set out above made to or on behalf of Optimum are cost recoverable to LEKOIL. LEKOIL will be required to fund payments (i), (ii) and (v) above within approximately four months. LEKOIL expects to fund these payments from a combination of existing cash resources, cash from future production and drawdown on available debt facilities.

vii. In addition, to underscore the resolution of historical issues and disputes between the parties, and to create a strong and lasting alignment with Optimum for the success of the OPL 310 joint venture, LEKOIL proposes, subject to LEKOIL shareholder approval, to grant to Optimum a combination of up to 1.2 per cent of LEKOIL's issued share capital as at the date of the Agreement, to be issued immediately following shareholder approval, and warrants for up to 0.8 per cent of outstanding LEKOIL ordinary shares as at the date of the Agreement in four equal tranches exercisable at 25 pence, 50 pence, 75 pence and 100 pence.

(b) Litigation and claims
The Company is involved in two on-going litigations as disclosed in the Annual Report of 2018 (note 35 (ii) and (iv)). There has been no change to the status. The Directors, on the advice of external counsel are confident that the Company will suffer no material loss. Consequently, no provision has been made in these condensed consolidated interim financial statements.

Company information

Financial calendar

Announcements

- Full year results for 2019 are expected in May 2020.
- Half-year results for 2020 are expected in September 2020.

Dates are correct at the time of printing, but are subject to change.

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